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and Seventeenth Meeting of the Advisory Expert
Group on National Accounts

Inter-secretariat
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For discussion

G.2 Treatment of MNE and Intra-MNE Flows: Outcome of Global Consultation

Prepared by the Globalization Task Team (GZTT)

INTERNATIONAL MONETARY FUND

G.2 Treatment of MNE and Intra-MNE Flows: Outcome of Global Consultation¹

The global consultation strongly supported the proposed definition of MNEs as well as the conceptual proposals to: (i) align the definition of “control” elaborated in the SNA with the definitions put forward by the BPM6/BD4, thus enforcing the strict “50 percent voting power rule” in the SNA and (ii) use the decision tree to allocate MNE units to institutional sectors. Regarding the practical aspects of implementation, there was a clear preference for highlighting existing SNA gross and net aggregates. The consultation also confirmed that while more granularity through the Institutional Sector Accounts (ISA) framework and the extended supply and use tables (eSUT) could be considered beneficial from a conceptual point of view, concerns were expressed about the resource and data requirements for implementation.

In view of the broad agreement received during the global consultation, this Guidance Note (GN) is proposed to be considered by the Committee and the AEG for final decision.

OVERVIEW

1. Fifty-five participating economies submitted 59 complete responses (Figure 1). The majority provided a coordinated response (33 respondents) for balance of payments and national accounts, eight submitted a response for balance of payments only, and 18 for national accounts only. The consultation run from June 21 to August 4, 2021

CONCEPTUAL ISSUES

Three main conceptual issues discussed in the guidance note are (i) the definition of MNEs macroeconomic statistics, (ii) the principle and definition of control in the context of MNEs, and (iii) the proposed decision tree to be used in the allocation of MNE units to institutional sectors.

2. There was a large majority support (83 percent of respondents) for the proposed definition of MNEs.² The only reason expressed as disagreement was the difference between the control aspect and the direct investment definition of more than 10 percent.

3. Most of the respondents (88 percent) also agreed to align the definition of control in the 2008 SNA—when identifying foreign-controlled units as well as units that are part of domestic MNE groups—with the definition set out in the BPM6/BD4 (Figure 4). While participants generally agreed with aligning the definitions across the manuals, they cautioned that qualitative information of de-facto control (from administrative sources) should also be considered to prevent misleading representation of enterprise groups and to allow compiling agencies to obtain an exhaustive picture of the

¹ Prepared by Ms. Francien Berry (IMF), and reviewed by Ms. Padma S. Hurree-Gobin and Ms. Jennifer Ribarsky (both IMF – GZTT Secretariat), and Mr. Michael Conolly (CSO, Ireland – co-chair).

² A legal entity that has at least one nonresident affiliate or branch, and exercises control over its affiliate(s) or branch(es) either directly—by owning over 50 percent of the voting power in the entity—or by indirect transmission of control; such that the MNE is the ultimate controlling parent or the direct investor at the top of the control chain.

groups' structure. Such information could include the members of the controlling committee of the entity, veto power, or other related data.

4. Most respondents (77 percent) were in favor of the proposed decision tree to help users classify MNE units (Figure 5). The decision tree is an extended version of Figure 4.1 of 2008 SNA.

Options Considered to Better Highlight MNE Activities

5. Of the four proposed approaches³ to highlight MNE activities in the macroeconomic statistics, the consultation showed greater support for Approaches 1 and 2. The majority (44 respondents) favored Approach 1 and 33 respondents were supportive of Approach 2. Approach 3 was the least attractive (19 respondents). A breakdown of the responses by approach and region is shown in Table 1 and Figure 6 (Panels A to D), respectively.

CURRENT COMPILATION PRACTICES

6. The majority of the respondents (mostly European economies) indicated that they currently compile ISAs. However, with respect to the ISAs being a feasible approach to highlight MNE activities in their national accounts, a large proportion raised concerns related to (i) insufficient resources—staff and access to data, (ii) inadequate statistical infrastructure, and (iii) institutional barriers that would adversely impact data collection (Figure 9). Only 19 of them agreed that this would be feasible. Figure 10 (panels A to E) shows the details.

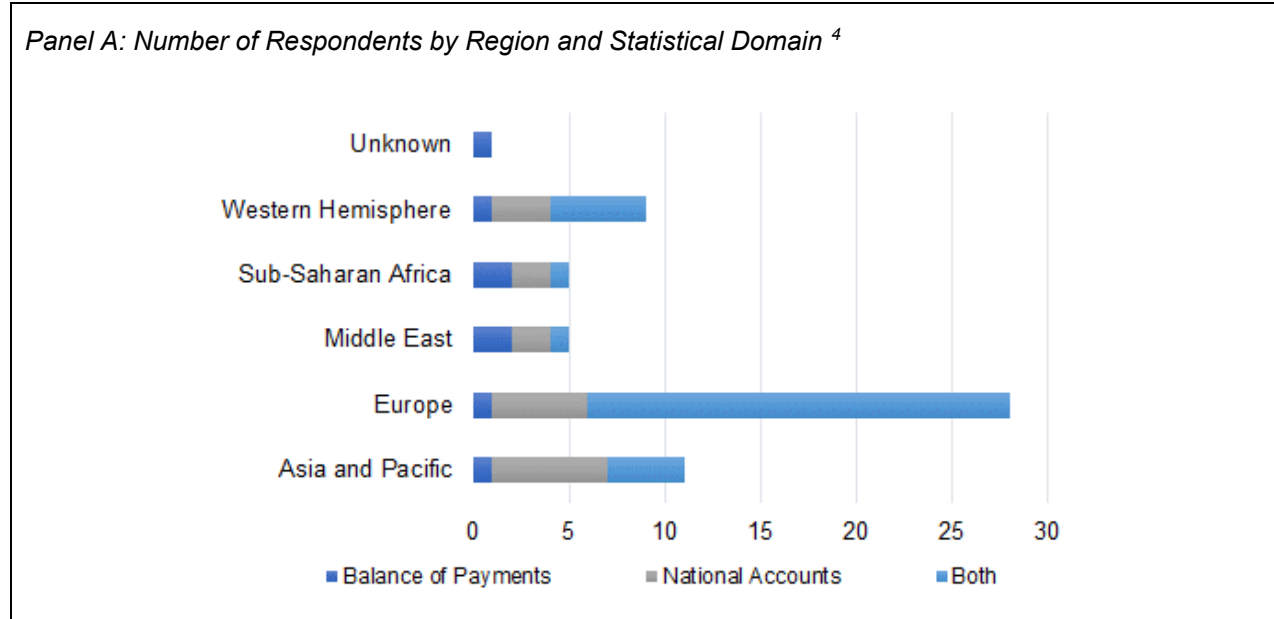
7. Most respondents found that the provision of additional granularity through the eSUTs would be hampered by their agencies' lack of staff resources, insufficient data sources, and inadequate statistical infrastructure. Almost split views were expressed regarding Approach 4—breaking down GVA by industry. Overall, a large majority (60 percent) confirmed that their statistical agencies could not break down GVA for some industries to show foreign-controlled corporations and units that are part of domestic MNE groups, while the remaining indicated that it was feasible (Figure 8). Out of the 23 responses, approximately half thought that the changes required to their statistical framework would likely need more than 5 years to complete, while the remainder noted a likely change in 3 to 5 years based on their organization's medium-term strategy.

8. The consultation also revealed other perspectives on the GN. Some of the main feedback indicated by the users are (i) more information on the issue of control as it relates to MNE statistics would be useful; (ii) the definition of control could take into consideration the special case of governments; (iii) it might be useful for the note to discuss the case in which the ultimate controlling parent (UCP) is a natural person; and (iv) while all the approaches are conceptually sound, some countries may have difficulties getting access to the required data.

³ The four approaches are (i) highlighting existing macroeconomic indicators in the SNA that are less sensitive to the impact of globalization, (ii) including more granular data through the institutional sector accounts, (iii) including more granular data through the extended supply and use tables framework, and (iv) breaking down gross value added (GVA) for certain industries to show value added generated by domestic MNEs versus affiliates of foreign MNEs, respectively.

Appendix I. List of Tables and Charts

Figure 1. Number of Respondents by Region and Statistical Domain



⁴ Sixty-one valid responses were received. Due to duplication in the data, two responses were not used. One respondent did not report their country.

Figure 2. Importance of Statistical Treatment of MNEs

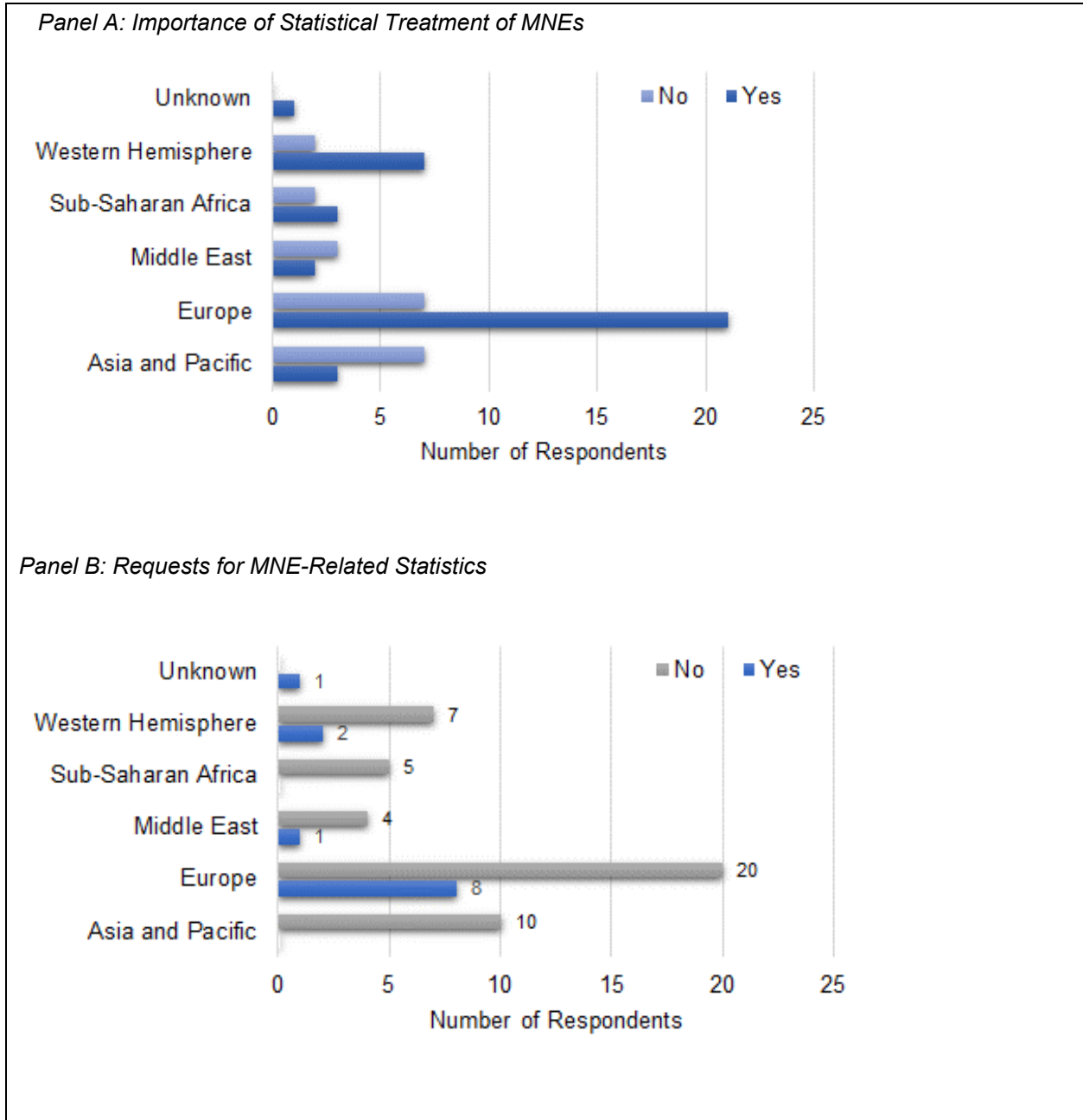


Figure 3. Views on the Definition of MNEs

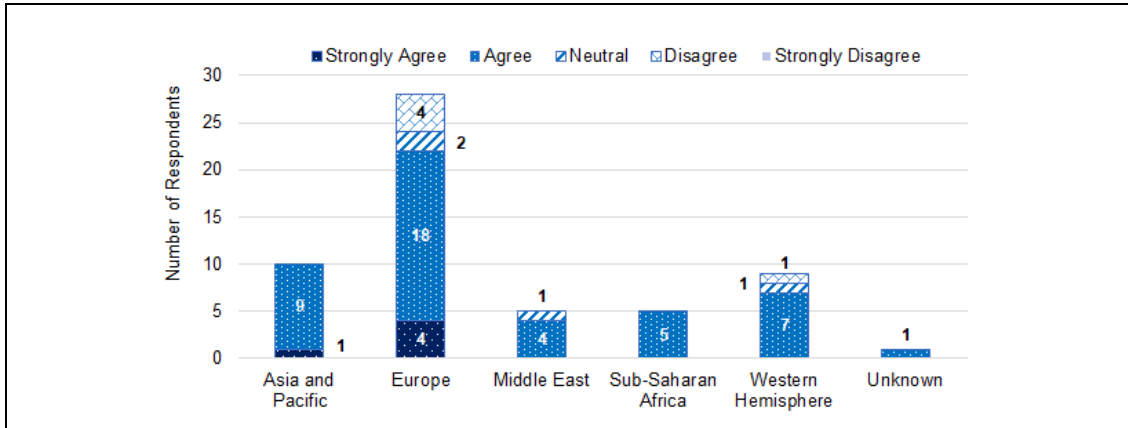


Figure 4. Views on Aligning the 2008 SNA and BPM6/BD4 Definitions of Control

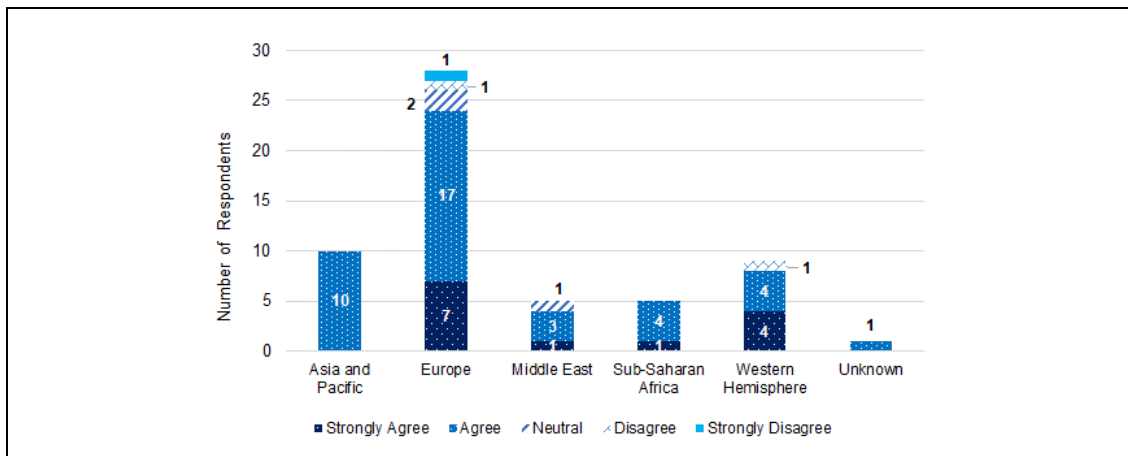


Figure 5. Views on the Proposed Decision Tree to Allocate Institutional Units

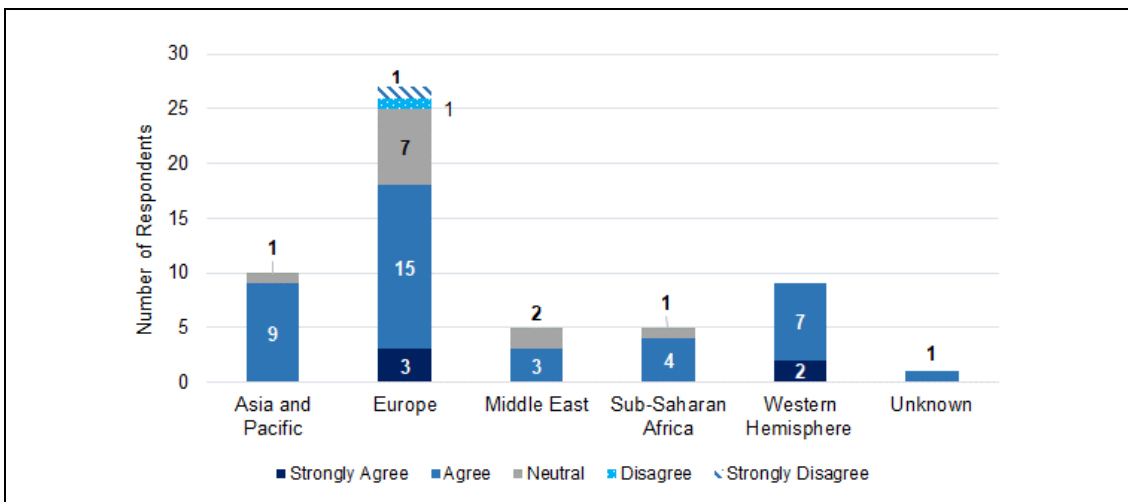


Table 1. Summary Views on the Proposed Approaches to Highlight MNE Activities in the Macroeconomic Statistics

	Approach 1 – Existing Macroeconomic Indicators	Approach 2 – Granularity through ISA	Approach 3 – Granularity through eSUTs	Approach 4 – Breakdown of GVAs
Strongly Agree	17	8	5	8
Agree	27	25	14	16
Neutral	10	15	23	20
Disagree	1	7	11	10
Strongly Disagree	1	2	2	1

The arguments in favor of Approach 1 are the (i) practicality of implementation within the current SNA framework, (ii) reliance on already existing aggregates, (iii) minimum adjustment required to existing systems and data, and (iv) the resilience of the framework to the challenges posed by MNEs. Some respondents also noted that the existing production of net macroeconomic aggregates is sufficient for their current domestic situation. There was marginal disagreement for Approach 1. Two respondents contended that they are unable to produce net estimates of some aggregates such as net national income (NNI).

Most respondents (33) were supportive of Approach 2—adding more granularity through the ISAs. They noted that it would be a conceptually sound, consistent, and useful way to extract granularity from the data. The minority (9 respondents) that did not support Approach 2, raised several challenges such as staff and data constraints to implement this approach, different adjustments required at the macro level to compile the nonfinancial accounts, problems associated to elaborate and present these additional estimates in a more detailed breakdown to show the activities of MNEs, and confidentiality issues. A few respondents were also concerned about the additional resources that would be required to meet their regulatory reporting requirements.

Approach 3—adding more granularity through the extended supply and use tables (eSUTs)—was the least attractive (19 respondents). While they highlighted that the eSUTs are conceptually sound and could provide key benefits for input-output analyses, some of them noted that limited resources, both in terms of staff and information system as well as data constraints would undermine implementation. Consequently, the cost of implementation would outweigh any potential benefits that this approach may provide. Twenty-three respondents were neutral, while 13 respondents disagreed with Approach 3.

Twenty-four respondents supported Approach 4—breaking down GVA for certain industries. They argued that this method may be a good compromise between users' needs for more granular data and the resources required by the national statistics offices. Eleven respondents did not support this option due to the level of details needed, the challenges to implement the approach, and issues of data confidentiality. Twenty respondents were neutral.

Figure 6. Views on the Approaches to Highlight MNE Activities in the Macroeconomic Statistics

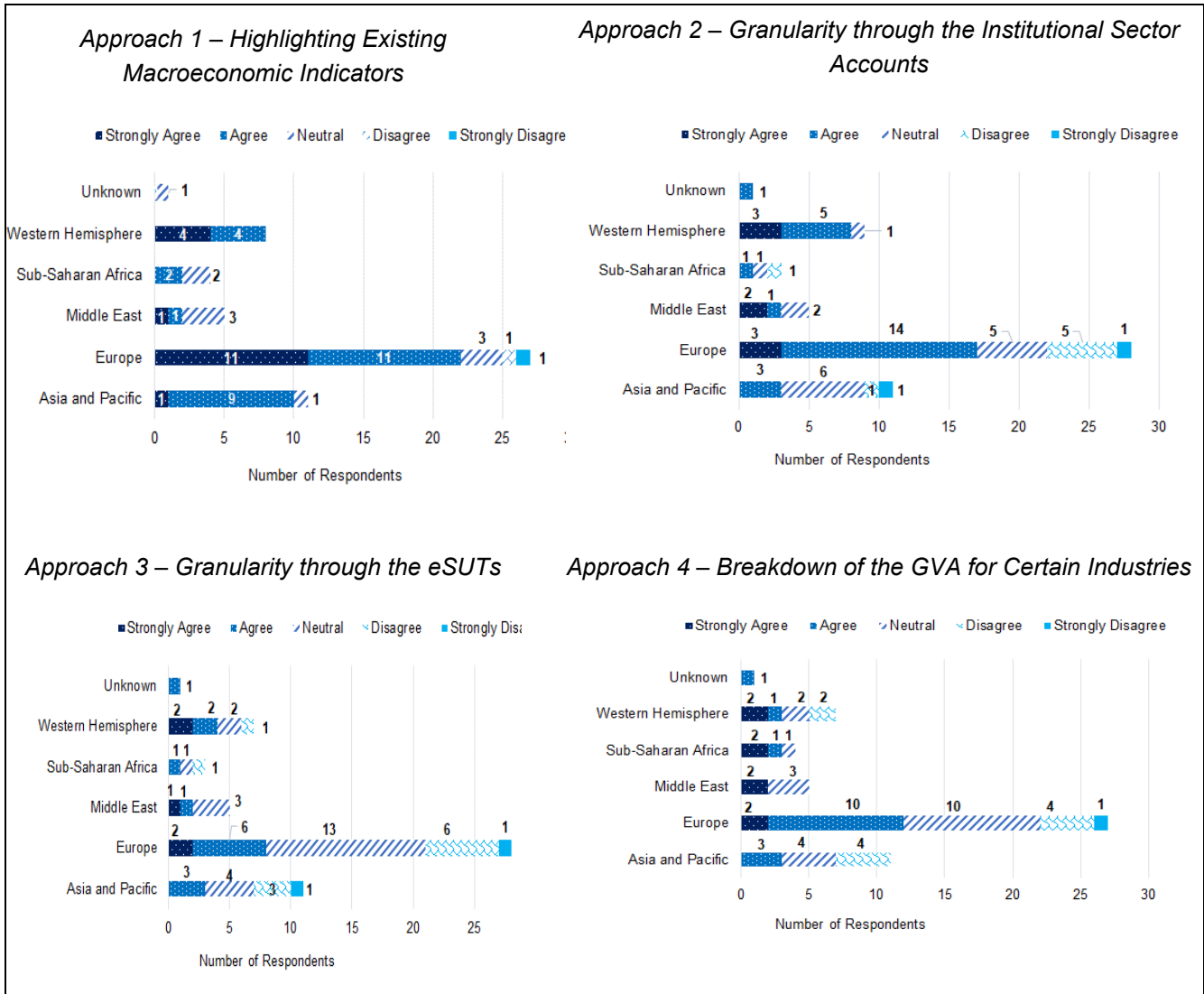


Figure 7. Views on the Addition of Four New Subsectors in the SNA

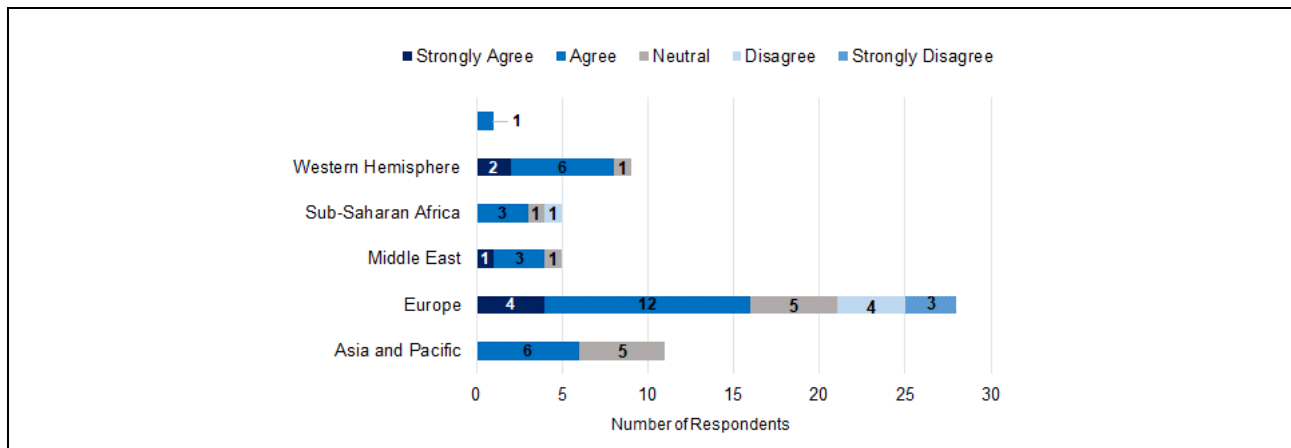
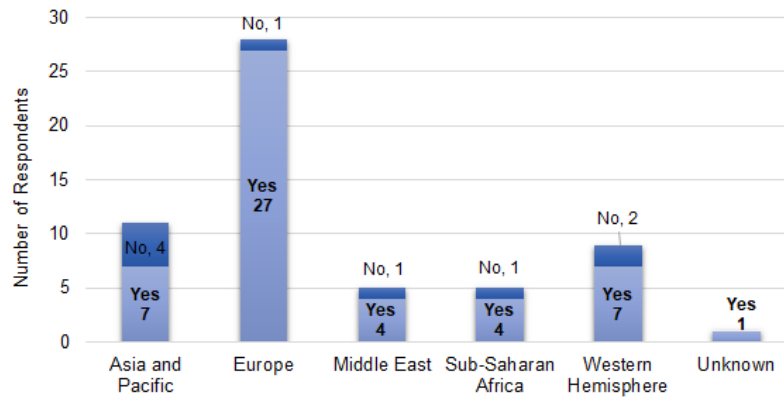
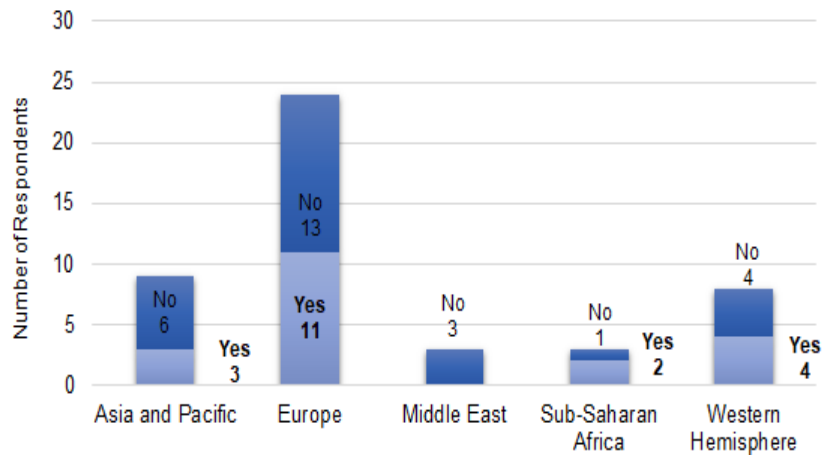


Figure 8. Current Practice on the Compilation of ISA and Breakdown of GVA

Panel A: Economies Currently Compiling ISA



Panel B: Economies Able to Breakdown GVA for Certain Industries



For economies that are unable to provide this breakdown, the reasons provided are (i) the business registers do not provide sufficient details; and (ii) annual surveys used to derive GVA do not allow for a breakout of MNE units. In some instances, the respondents noted that they can obtain GVA by ownership but not foreign-controlled or domestic MNEs.

Figure 9. Feasible Approaches to Highlight the Activities of MNEs

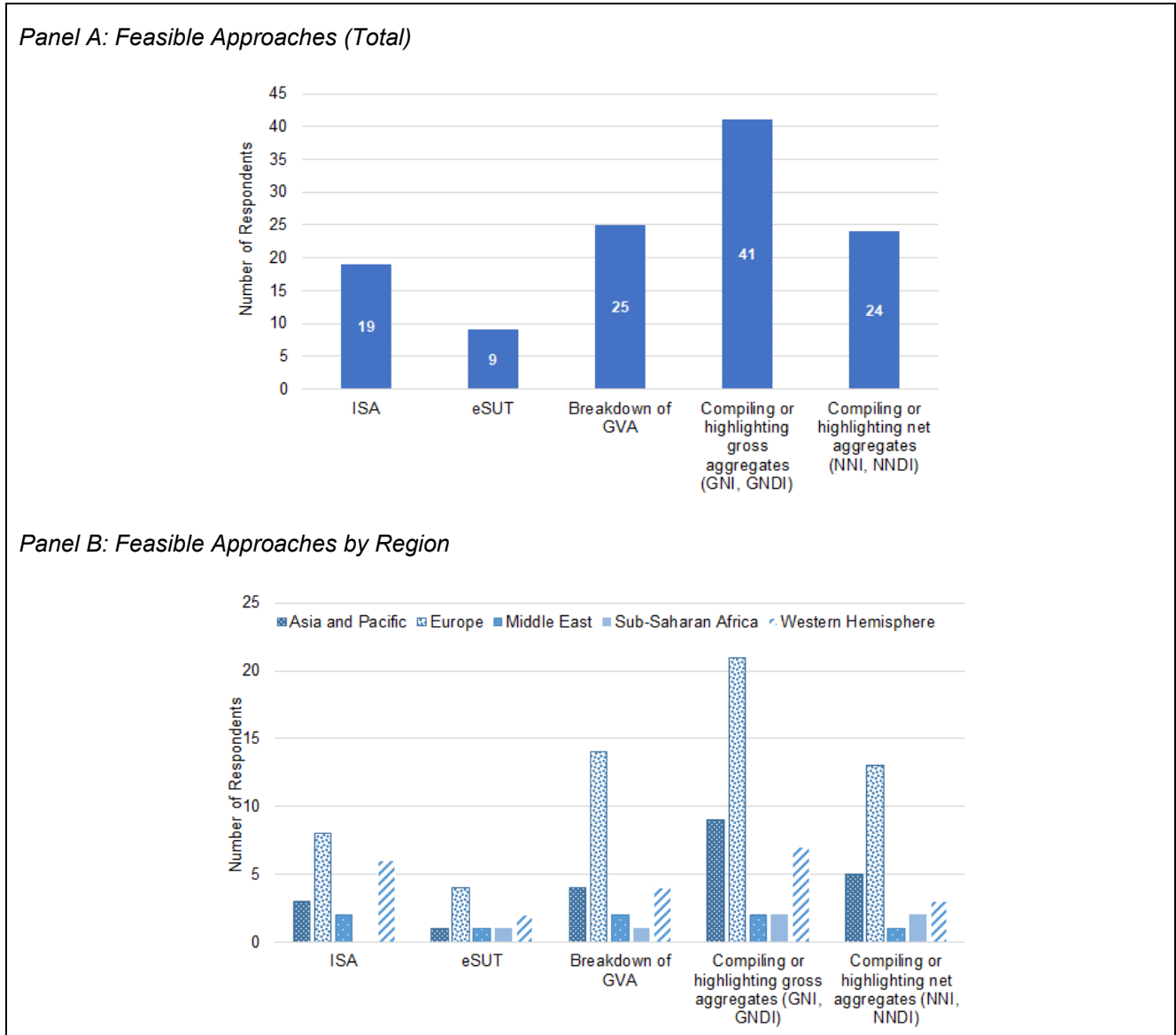
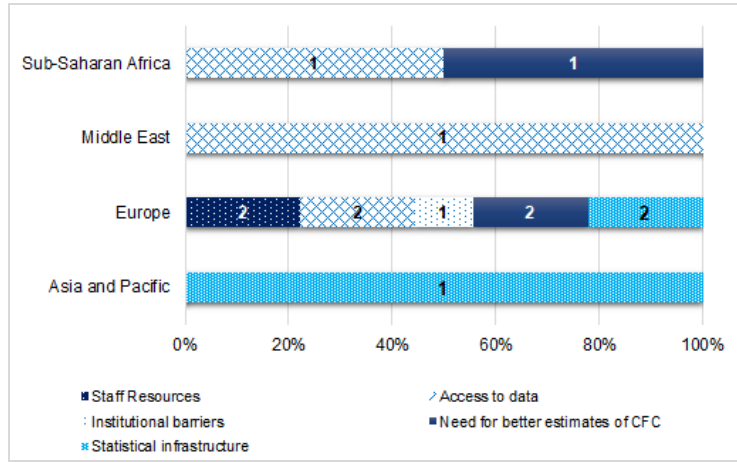
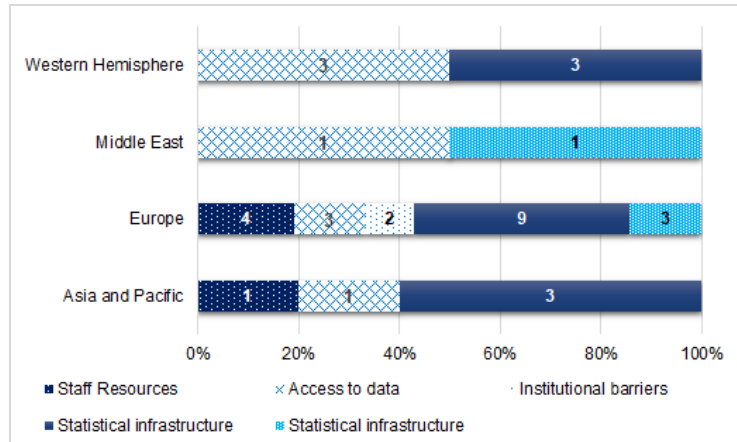


Figure 10. Reasons for Which Economies are Unable to Implement Proposed Approaches

Panel A: Compiling Existing Gross Measures



Panel B: Compiling Net Measures



Panel C: Adding Granularity Through the ISAs

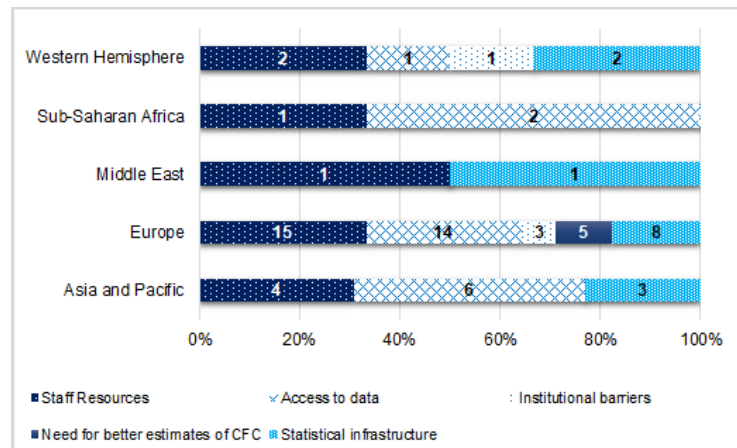
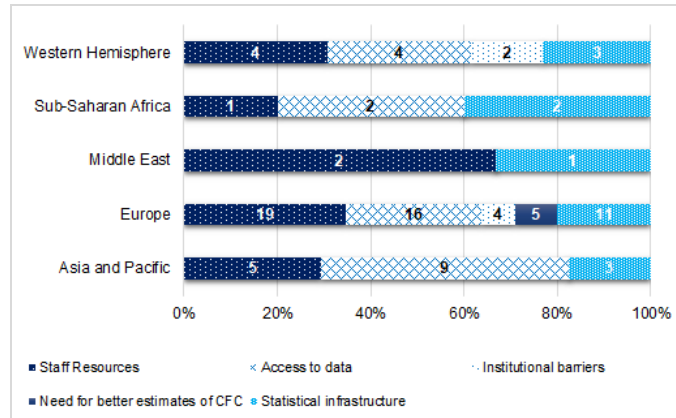


Figure 10. Reasons for Which Economies are Unable to Implement Proposed Approaches (continued)

Panel D: Adding Granularity Through the eSUTs



Panel E: Breakdown of GVA by Industries

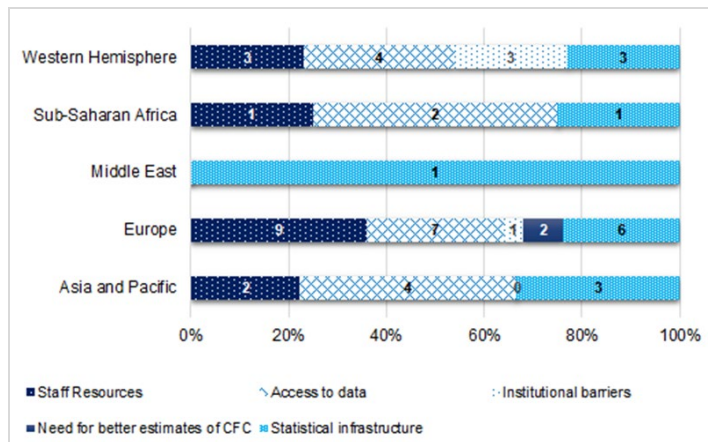


Figure 11. Possibility of Implementing Approaches in the Medium Term

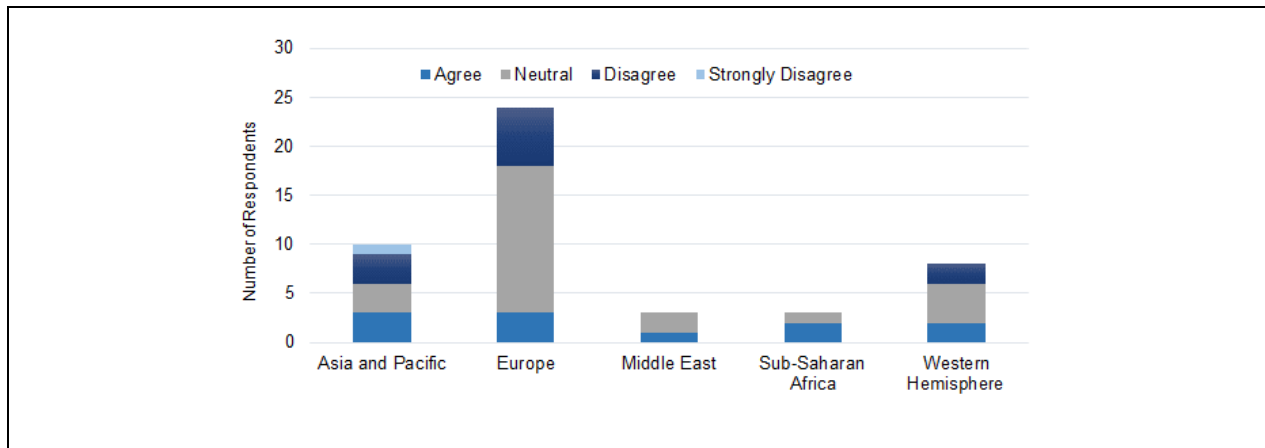
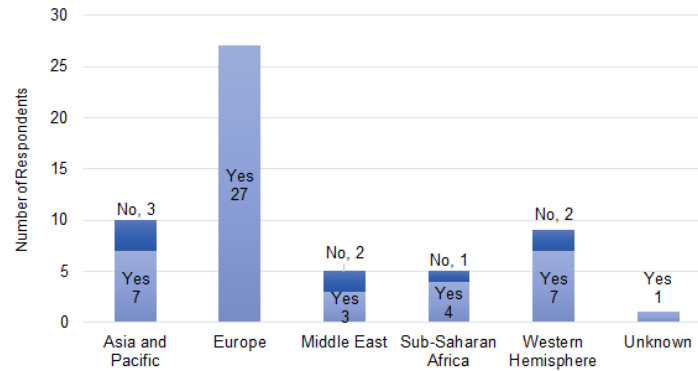
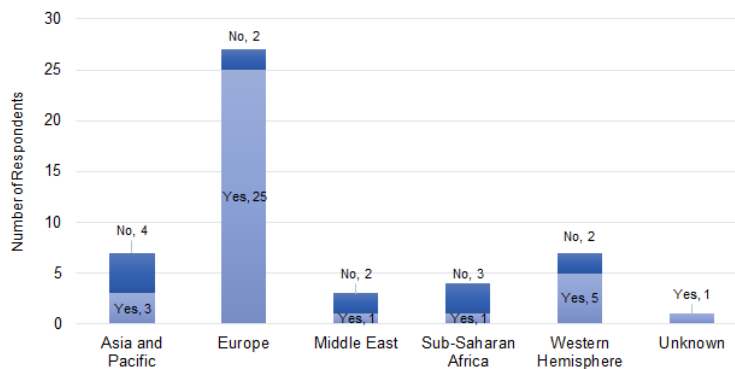


Figure 12. Identifying Foreign-Controlled Units from the Business Register

Panel A: Economies that Maintain a Business Register



Panel B: Possibility of Identifying Foreign-Controlled Units from the Business Register



The consultation also sought to ascertain whether economies have the proper data sources in place to break out MNE activities in the national accounts' statistics. The first step in collecting suitable data sources is to identify the units within the domestic economy that are part of MNE groups. Therefore, a business register that allows compilers to access control of the units is critical. Forty-nine respondents confirmed that their statistical agency maintains a business register. Eight economies stated that their statistical agencies do not maintain a business register. Of the 49 respondents, 36 respondents established that their statistical agency was able to distinguish foreign-control corporation in their register. The 13 respondents that stated otherwise argued that the register does not maintain the ownership or control status of entities. Notably, some respondents stated that while the business register does not contain sufficient information to distinguish foreign-controlled enterprise, limited or partial information may be available from their direct investment and foreign affiliates statistics (FATS). Additionally, limited or partial data on foreign-controlled units are available from profiling large and complex units.

Figure 13. Level of Investment Required to Distinguish Foreign-Controlled Units

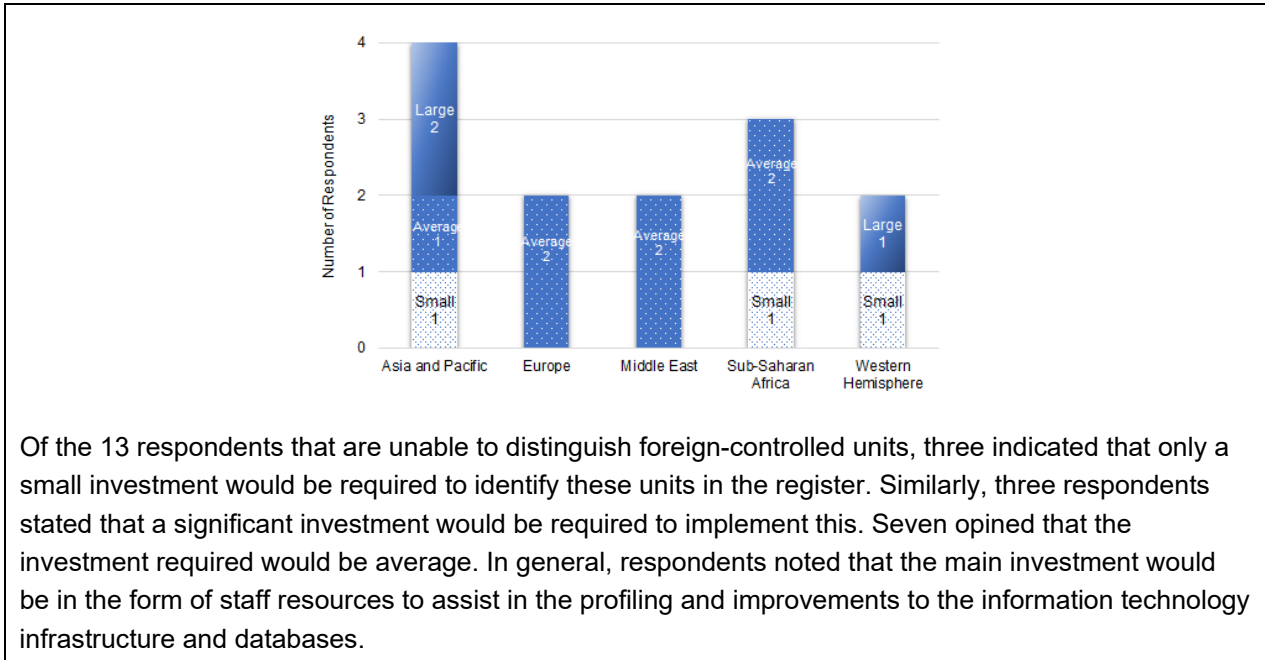
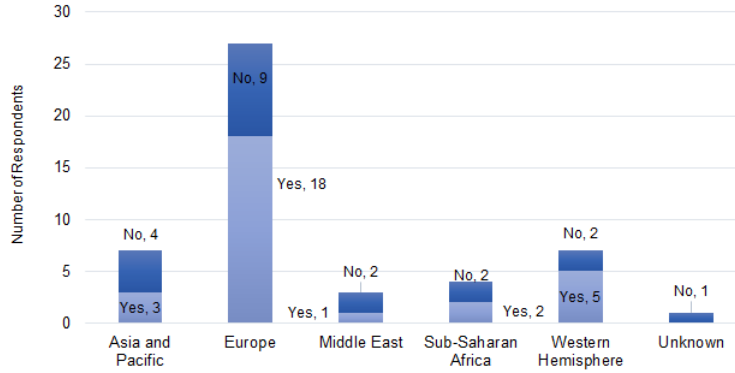
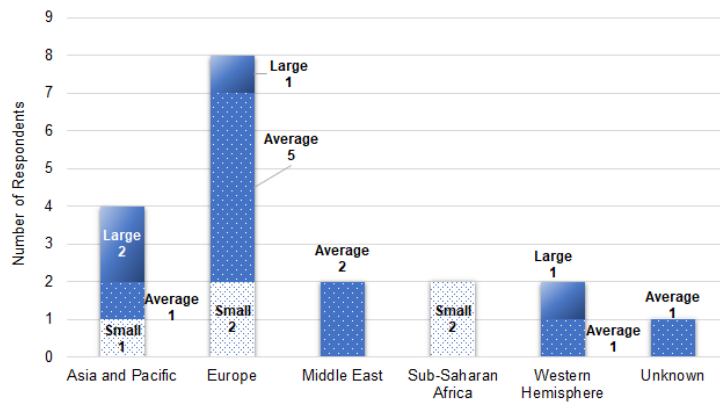


Figure 14. Level of Investment Required to Distinguish Domestic MNEs

Panel A: Possibility of identifying domestic MNEs



Panel B: level of investment required to distinguish domestic MNEs



For domestic MNEs, 20 respondents indicated that they are unable to distinguish domestic MNEs in their business register 29 respondents confirmed that they could distinguish domestic MNEs in their current business registers.